Statement of Steven K. Graves,
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Finance Board of Governors,
Mortgage Bankers Association

Before the
Subcommittee on Capital Markets, Insurance, and
Government Sponsored Enterprises
Committee on Financial Services
United States House of Representatives

Hearing on

The Need to Extend the Terrorism Risk Insurance Act

March 5, 2007

City Hall, New York

Introduction
Good Morning. My name is Steven K. Graves and I am Managing Director and Chief Operating Officer for Principal Real Estate Investors, the dedicated real estate group for Principal Global Investors. I also serve as Vice Chair of the Commercial Real Estate/Multifamily Finance Board of Governors of the Mortgage Bankers Association (MBA).[1]

Principal Real Estate Investors is one of the nation's largest commercial real estate lenders with $22 billion in mortgages under management and administration. Consequently, my organization is a major stakeholder in the future of the Terrorism Risk Insurance Extension Act of 2005 (TRIEA). In fact, because of TRIEA, I am pleased to report that terrorism insurance is in place for over 90 percent of the commercial real estate mortgages that my company administers. However, with the expiration of TRIEA looming at the end of this year, Congress must take action to implement a long-term terrorism insurance solution.

The objective of my presentation today will be to provide you with a window into the commercial real estate finance sector that highlights the important role terrorism insurance plays for both the origination of new loans (originations) and the ongoing servicing of existing loans (servicing) and the severe challenges faced by our industry when there is a lack of available and affordable terrorism insurance. In addition, I will discuss the elements of a long-term terrorism insurance solution that MBA is advocating.

TRIEA Has Worked
From the perspective of the commercial real estate finance industry, TRIEA has been an unqualified success for increasing the availability and affordability of terrorism insurance. In fact, a study performed by MBA in 2004 revealed that 84 percent of the surveyed commercial real estate debt outstanding had terrorism insurance in place. The study collected information on more than $656 billion in outstanding commercial and multifamily loans, representing (at the time) 32 percent of the total commercial/multifamily mortgage market. I have attached this study as part of my testimony. The average loan size in the survey was just over $5 million. The survey also revealed that there were nominal differences (1 percent) in the average loan size of all loans in the survey (both loans with and without terrorism insurance) and the average

[1] The Mortgage Bankers Association's (MBA) commercial/multifamily real estate finance division represents over 725 companies operating across the U.S. and internationally. As the premier organization, representing more than $2.845 trillion in mortgage debt outstanding and $345 billion in annual originations, we represent the entire commercial/multifamily mortgage market including: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the commercial/multifamily mortgage lending field. MBA's commercial/multifamily division promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees. It provides industry research, advocacy outreach, networking opportunities to help its members speak to peers, a variety of publications, professional development and education, and overall assistance to its members to help them run their business more effectively and strategically. For additional information, visit the commercial/multifamily real estate finance page on MBA's Web site: www.mortgagebankers.org/cref.

loan with terrorism insurance in place. This counters the popular belief that terrorism coverage is only necessary for high valued “trophy properties” located in high-profile markets.

The chief factor behind the success of TRIEA is the “make available” provision. The “make available” provision in the Terrorism Risk Insurance Act of 2002 (TRIA) and TRIEA requires insurers to offer terrorism coverage for insurance lines eligible to participate in the federal terrorism reinsurance program. Also within the MBA study, respondents estimated that if insurance companies were not mandated to provide terrorism insurance, approximately 80 percent of that $656 billion in debt in the study would not have had terrorism coverage. In fact, most currently available terrorism risk insurance policies are directly conditioned to the TRIEA "make available" provision. Thus, if the “make available” provision was excluded from a long-term or permanent terrorism insurance solution, a wide range of borrowers and commercial real estate loan servicers would be caught between their contractual obligations to have terrorism insurance in place and a lack of available terrorism insurance. Accordingly, MBA strongly encourages Congress when contemplating a long-term terrorism insurance solution to include a “make available” provision.

Commercial/Multifamily Real Estate Finance Sector is Vital to the U.S. Economy
With $2.845 trillion in debt outstanding, the commercial/multifamily real estate debt sector is an integral and large part of the national economy. This debt finances the vast majority of office, retail, industrial and multifamily buildings. These buildings house the businesses that are the engines for the nation’s vibrant and diverse economy. A lack of available and affordable terrorism insurance, would not only impact the commercial real estate finance sector, but would ripple through the economy as buildings became more difficult and costly to finance and purchase. Consequently, available and affordable terrorism insurance is not only linked to the vitality of the commercial real estate finance sector, it is also a key element in the strategy for reducing the nation’s vulnerability to the impacts of a terrorist attack.

Terrorism Insurance is Important to the Commercial/Multifamily Finance Sector
The availability and affordability of terrorism insurance affects the commercial/multifamily real estate finance industry in two fundamental ways; it affects the more than $345 billion in annual originations the industry processes and it also affects the $2.845 trillion in commercial/multifamily mortgage debt outstanding.[2] Originations are comprised of loans that fund new commercial/multifamily projects and refinance existing commercial/multifamily projects.

When terrorism insurance coverage was not available for new projects in the aftermath of September 11th, many new construction projects were delayed and/or cancelled. The negative impact of these delays and cancellations on the national economy were rightfully spotlighted by the media. However, this lack of available and affordable

[2] For originations, the latest MBA survey, *2005 Commercial Real Estate/Multifamily Finance: Annual Origination Volume Summation,* indicated that the top 125 commercial/multifamily finance firms originated $345 billion of commercial/multifamily loans during 2005.

terrorism insurance does not only impact originations, it also has a major impact on the existing $2.845 trillion in outstanding commercial/multifamily debt. Consequently, both areas will be addressed in my statement.

Typical commercial mortgages are made on an 80 percent loan-to-value (LTV) ratio, which means that at the time of loan origination 80 percent of the property value is reflected in the mortgage held by the lender and the remaining 20 percent is owner's equity. Commercial real estate lending is typically non-recourse, meaning that in the case of a mortgage default the lender can only look to the underlying value of the property to recover its mortgage balance, not the assets of the owner. Because most commercial real estate lending is non-recourse, lenders have an acute interest in preserving and protecting asset value. In order to protect their interest in their commercial real estate assets, lenders place paramount importance on requiring and verifying that uninterrupted insurance coverage, including terrorism insurance, is in place for the life of the loan.

The commercial/multifamily side of the mortgage industry includes transactions made by commercial banks, life insurance companies and individual and institutional investors through commercial mortgage-backed securities (CMBS). CMBS are comprised of commercial/multifamily mortgages that are pooled together and sold off in the form of securities, similar to how residential mortgages are securitized. Currently, 20.5 percent of all commercial mortgage debt is in the form of CMBS. Over the past several years, CMBS and commercial mortgage loans have outperformed other asset classes, such as corporate bonds. These investments, therefore, are a part of chief investment officers' permanent allocations and the retirement accounts and/or pensions of many people on fixed incomes. As was demonstrated after the September 11th attacks, a lack of terrorism insurance can lead to rating agency downgrades of CMBS. Such downgrades have the potential to negatively impact the performance of a wide variety of mutual funds that include CMBS in their portfolios.

When commercial insurance carriers excluded terrorism insurance coverage prior to the enactment of TRIA, the risk of a catastrophic terrorism loss shifted from the insurance industry to the commercial real estate finance industry. For this reason, lenders and loan servicers who bear a fiduciary responsibility to investors and funding sources have the greatest standing among all industries in assuring broad availability and affordability of terrorism insurance. Commercial real estate lenders and their servicing firms will experience serious operational difficulties with regard to their existing portfolios if a terrorism insurance solution is not created before TRIEA expires. As the trade association representing the largest concentration of commercial/multifamily lenders and servicers, MBA is uniquely positioned to represent the full breadth and depth of the commercial/multifamily finance industry.

Commercial real estate lenders have underwriting requirements that mandate terrorism insurance be in place as a condition for funding the loan. Should terrorism insurance become unavailable due to the sunset of TRIEA, lenders would be faced with the decision of violating their underwriting requirements or no longer funding loans. The large scale cancellation of new construction projects and funding of new loans in the aftermath of September 11th strongly indicates that lenders in the absence of available and affordable terrorism insurance would dramatically curtail their lending activity, which would negatively impact new commercial real estate construction.

Role of the Servicer

For the $2.845 trillion in commercial mortgage debt outstanding, the servicer plays a vital role. The role of the commercial/multifamily loan servicer commences the day the loan is closed and ends when the loan is paid off. Between these events, the servicer is responsible for activities such as collecting and dispersing loan payments, administering escrow and reserve accounts, preparing financial reports, monitoring and inspecting collateral, transferring ownership and default administration. Collectively, these responsibilities ensure that the underlying collateral is being properly maintained and the cash flow from mortgage payments is being properly disbursed.

Servicers bear the fiduciary responsibility, as described in transaction legal documents, of ensuring that required insurance coverage, including terrorism insurance coverage, is in place during the life of the loan. Servicers are required to verify adequate insurance is in place on an annual basis, not just at the inception of a loan.

In the case of terrorism insurance coverage, there is significant risk for servicers not to be able to meet their fiduciary responsibility to verify that terrorism coverage is in place on an annual basis. In the aftermath of September 11th, insurers dropped terrorism insurance coverage and did not notify lenders or servicers when new annual insurance contracts were issued. This lack of notification or transparency placed a huge liability on lenders, who are listed on insurance contracts as co-payees or additional insured. This left servicers with the responsibility of having to review every insurance contract for each loan to verify that terrorism coverage was in place. This process was greatly complicated by not having a transparent process in place for insurance companies to notify servicers and lenders that terrorism coverage was in place. MBA seeks to preserve notifications to all policy insureds during the life of the loan, which is critical to effectuating information transparency and protection to property owners, lenders and investors.

Long-Term Terrorism Insurance Solution

MBA will be evaluating specific long-term terrorism solution proposals based on a set of principles that will ensure adequate insurance for terrorism, as required by commercial real estate finance lenders and servicers. MBA will examine each long-term terrorism insurance proposal based on it meeting the following principles:

- **Widely Available** - Terrorism insurance needs to be widely available, which would require the existing “make available” provision in Terrorism Risk Insurance Extension Act of 2005 (TRIEA) be included in a long-term terrorism insurance solution.

- **No Interruptions** - The long-term terrorism insurance solution should be crafted in a manner that eliminates short-term interruptions in terrorism insurance availability or price shocks when it is implemented.

- **Affordable** - Terrorism insurance needs to be priced in an affordable manner.

- **All-Peril Coverage** – Terrorism insurance will cover all-perils including nuclear, biological, chemical, and radiological threats.

- **All Terrorism Sources** – Terrorism insurance should cover both foreign and domestic source terrorist events.

- **Lender/Servicer Notifications** - Lenders/servicers are listed as mortgagee, loss payee and additional insured depending on the loan documentation and as such they are entitled to specific notifications of coverage lapses, gaps, and renewals. Any long-term solution needs to preserve and implement the required notification.

Need for a Public/Private Partnership

The MBA, along with the Coalition to Insure Against Terrorism (CIAT), has been participating in efforts to bring greater consensus regarding a long-term terrorism insurance solution. In one area, there is widespread consensus regarding the need for a public/private partnership in the case of a catastrophic terrorist event. At the March 29, 2006, National Association of Insurance Commissioners (NAIC) Public Hearing on terrorism insurance, insurance companies and insurance company trade associations testified that without a federal backstop the insurance industry would pull out of the terrorism insurance business in mass because of the inability of the insurance industry to accurately model terrorism risk.

In its analysis of terrorism events, the American Academy of Actuaries (AAA) stated the following: "Because of the potential for terrorist attacks that could cause very large losses, the Subgroup [Terrorism Risk Insurance Subgroup] does not believe there is any strategy that can develop sufficient terrorism insurance capacity without some form of legislation that limits insurer liability should these events occur." Given the statement of the AAA and the insurance companies, we believe that any long-term terrorism insurance solution will need to include a public/private partnership that will allow insurance companies to quantify their potential exposure to a terrorist event.

In 2006, MBA participated in meetings with both the President's Working Group on Financial Markets (PWG) and Government Accountability Office (GAO) to discuss availability and affordability issues associated with nuclear, biological, chemical, and radiological (NBCR) terrorism risk insurance. The reports released by the both PWG and GAO concluded that the private sector does not have sufficient capacity to offer NBCR terrorism risk insurance. Consequently, any long-term terrorism solution should address this serious private sector insurance coverage gap. In order to make NBCR insurance coverage widely available, a long-term terrorism risk insurance solution would also need to include NBCR events in the "make available" provision. Given the extreme insurance loss potential from an NBCR event, policy makers, when contemplating a long-term terrorism insurance solution, should consider lower co-pays and deductibles for NBCR events for insurance companies.[3] This will allow NBCR insurance coverage to be made available at commercially affordable pricing.

Conclusion

Once again, I appreciate the opportunity to provide our perspective on terrorism insurance to the Subcommittee. As the nation's largest representative of commercial real estate mortgage lenders and servicers, MBA stands ready to provide any assistance that the Subcommittee, full committee or Congress may require. We look forward to the opportunity of partnering with the Congress and the appropriate government agencies and the insurance industry to help craft a long-term solution for terrorism insurance that makes terrorism insurance coverage inclusive, available and affordable. Thank you very much for your attention on this vital matter.

[3] According to the study released on March 29, 2006 by the American Academy of Actuaries, a large NBCR event in New York City could result in $778.1 billion in losses, which is greater than the insurance industry's aggregate policy holder's surplus, which would be used to pay for such an event.

MORTGAGE BANKERS ASSOCIATION

STUDY OF TERRORISM INSURANCE, TRIA AND THE "MAKE-AVAILABLE" PROVISION

June 2, 2004

Background

President George W. Bush signed the Terrorism Risk Insurance Act of 2002 (TRIA) into law in November 2002. Section 103(c) of the act requires commercial property and casualty (P&C) insurers to make available coverage for insured losses that does not differ materially from the terms applicable to insured losses arising from events other than terrorism. This section of TRIA also requires that the Treasury Secretary determine no later than Sept. 1, 2004, whether to extend the "make-available" requirements through the calendar year 2005. In arriving at this decision, the Secretary must consider:

a. TRIA's effectiveness;
b. the likely capacity of the P&C insurance industry to offer terrorism insurance after termination of the federal reinsurance program authorized under TRIA; and
c. the availability and affordability of such insurance.

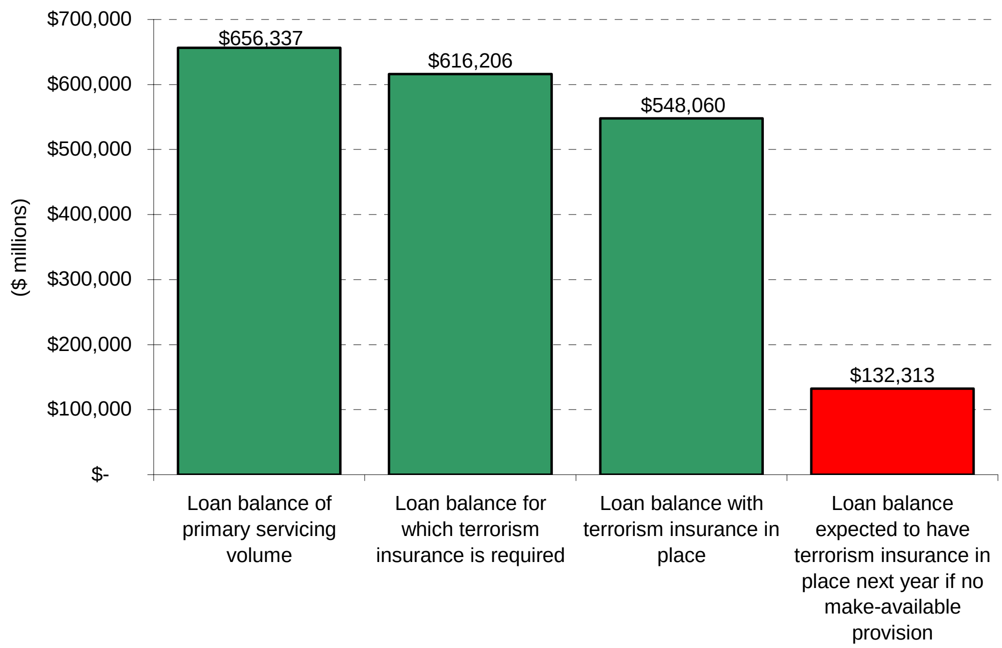
In May 2004, the Mortgage Bankers Association (MBA) conducted a study, in response to a request by the U.S. Treasury Department, to gather urgently needed information on the effectiveness of TRIA. The study looked at commercial and multifamily mortgages being serviced by the nation's top servicers, and collected information on the requirements for and prevalence of terrorism insurance coverage, as well as the implications if make-available requirements were removed.

Findings

Terrorism insurance has become integral to the $2 trillion[1] commercial/ multifamily mortgage market. Of the $656 billion of commercial/multifamily debt reviewed in the MBA study, $616 billion, or 93.9 percent, is required to have terrorism insurance by the mortgage investor and/or servicer. A full $548 billion, or 83.5 percent of the outstanding balance of the commercial/multifamily debt reviewed, had terrorism insurance in place.[2]

Reinforcing the finding that terrorism insurance is widely required and widely in place, the average loan size of the 122,811 loans in the analysis was $5.34 million. The average loan size requiring terrorism insurance coverage was only slightly higher at $5.4 million, as was the average loan size with terrorism insurance in place – $5.53 million.

Figure 1. The Role of Terrorism Insurance in the Commercial/Multifamily Mortgage Market ($ millions)



Insurance specialists at every servicer involved in the study expect that, if the make-available provision is not extended, terrorism endorsements that are currently in place will be cancelled or excluded[3]. They estimate that absent make-available, by the spring of 2005 only 20 percent, or $132 billion, of their collective portfolios would have terrorism coverage in place. This represents a reduction of 76 percent – or $416 billion – in the balance of loans that would be covered for losses from terrorism.

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[1] Estimate of total market size from Federal Reserve Board's *Flow of Funds Report*, March 4, 2004

[2] The 10 percent of commercial/multifamily debt for which terrorism insurance is required but not in place includes properties for which the servicer and borrower are working to place coverage, properties for which the requirements have been waived and some properties that may have "all-risk" coverage that has been deemed to include terrorism coverage, but for which an explicit statement of terrorism coverage does not exist.

[3] Cancelled policies represent those cases where a borrower's existing insurance policy is terminated. Excluded policies represent cases where the existing policy would remain in place, but the coverage afforded terrorist acts would be excluded.

The market implications of such reductions would be declines in market liquidity, increased costs and reduced availability of credit, and a subsequent fall in the yield on existing loans.

Terrorism Insurance Requirements by Investor Type

One of the strengths of the commercial/multifamily mortgage market is the degree to which risks associated with the timely repayment of principal and interest are divided and shared across different market participants. Whether through tranching[4] of commercial mortgage backed securities (CMBS), shared risk on loans by government-sponsored enterprises (GSEs) or other mechanisms, there are often many participants with "skin in the game" – that is, participants taking on the risks associated with timely repayment.

To protect their interests in the mortgage debt, participants, through their loan servicers, require insurance for fire, wind, flood and other hazards. Prior to Sept. 11, 2001, property insurance policies insured against terrorism losses by virtue of such losses not being excluded from the "all-risk" policy forms required by the lenders and investors. After Sept. 11, 2001, when virtually all insurers amended their policy forms to exclude terrorism coverage, lenders and investors explicitly required terrorism coverage to be obtained.

In the portfolios studied, 100 percent of the balance being serviced for CMBS and warehouse and other affiliates were required to have terrorism insurance in place. Eighty-nine (89) percent of the balance serviced for life companies was required to have terrorism insurance in place, as was 68 percent of the Fannie Mae and Freddie Mac balance and 43 percent of the Federal Housing Administration (FHA) and Ginnie Mae balance. Twenty-eight (28) percent of the balance serviced for commercial banks and savings and loans required terrorism insurance[5].

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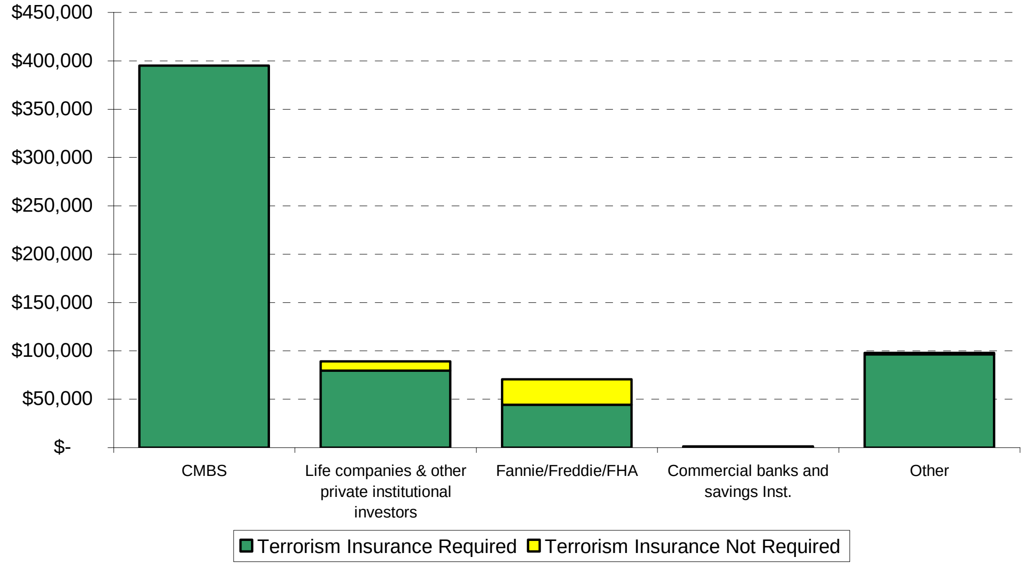
[4] CMBS are typically divided into classes or tranches, which carry different risk profiles and coupons (or returns). CMBS offers investors an opportunity to purchase the tranche that best fits their risk profile.

[5] Commercial banks and savings institutions are only minimally represented in this analysis. The best insights into their requirements for terrorism insurance come from the first quarter 2002 Federal Reserve Board of Governors' *Senior Loan Officer Opinion Survey on Bank Lending Practices.* That study found three-quarters of the 51 banks responding (74.5 percent) required terrorism insurance on 10 percent or less of their loan balance on high-profile/heavy-traffic properties. Eighty-two percent also required terrorism insurance on 10 percent or less of their loan balances on properties that are not high-profile/heavy-traffic properties. The Fed noted, however, that the six banks reporting the tightest terrorism insurance requirements represented 8 percent of all commercial real estate debt.
(See http://www.federalreserve.gov/boarddocs/snloansurvey/200205/default.htm.)

Figure 2. Commercial/Multifamily Loan Balance Requiring Terrorism Insurance, by Investor Group ($ millions)



Ensuring Terrorism Insurance Coverage

As noted here, there are times in the current make-available environment when terrorism insurance coverage is required, but is not in place (see note 2). In these cases, the servicer has the responsibility to ensure that coverage is put in place, thereby protecting the collateral underlying the mortgage loan. To do this, servicers most often rely on working directly with the borrower to put coverage in place.

Eighty-three percent of the servicing firms involved in the MBA study said they expect to always/almost always "notify the borrower of requirements and work with him/her to purchase" the necessary coverage when adequate coverage is not in place. Twenty-eight percent expect to always/almost always "force-place" coverage – wherein the servicer purchases the coverage and bills the borrower for its cost; 44 percent expect to seldom use this approach. More than half (56 percent) expect to seldom "declare an event of default[6]," with another one-third (33 percent) expecting to never/almost never declare default to ensure adequate coverage. "Litigation to require borrower to purchase coverage" is a little-used approach in resolving a lack of coverage, with no servicers expecting to always/almost always use this approach and two-thirds (67 percent) expecting to never/almost never use this approach.

With the absence of a make-available provision, however, these dynamics would change. Faced with an environment in which 75 percent of current coverage would be expected to be lost, servicers see their options for ensuring adequate coverage as limited.

In the absence of a make-available provision, the most frequently used current course of resolution – "notify the borrower of requirements and work with him/her to purchase" – is expected to be "very successful" by only 17 percent of the servicers, "somewhat

[6] A default is a breach or nonperformance of any of the terms or covenants of the loan documents, and can trigger a variety of actions, including foreclosure.

successful" by 67 percent and "not at all successful" by 17 percent. The resulting high costs and low availability would greatly hamper the success of this resolution.

At present, force-place coverage is the second most popular resolution. Without make-available, however, force-place would be expected to be "very successful" by only 17 percent of the servicers, "somewhat successful" by 56 percent and "not at all successful" by 28 percent. Prior to TRIA, such force-place policies were neither affordable nor available.

Litigation is seen as potentially "somewhat successful" to more than half of the respondents (54 percent). At present, litigation is a little-favored means of gaining coverage, largely because affordable coverage can be obtained through other means. If the make-available provision is not extended, however, the low success rate of other resolutions can be expected to increase the use of litigation as the vehicle to ensure coverage.

The Role of TRIA

TRIA is essential to making terrorism insurance available and affordable, and in helping keep the commercial/multifamily mortgage market healthy. Every one of the servicers managing the $656 billion of commercial/multifamily loans studied here responded that:

- the federal government's requirement that insurance carriers make available terrorism insurance helped increase the <u>availability</u> of terrorism insurance.

- the federal government's requirement that insurance carriers make available terrorism insurance helped bring the <u>price</u> of terrorism insurance within reach.

- the <u>continuation</u> of the federal government's requirement that insurance carriers make-available terrorism insurance is necessary to ensure the continued <u>availability</u> of terrorism insurance.

- the <u>continuation</u> of the Federal government's requirement that insurance carriers make-available terrorism insurance is necessary to ensure terrorism insurance continues to be <u>priced</u> within reach.

- the <u>federal government should continue the TRIA make-available requirement</u> throughout 2005.

All servicers but one stated that the federal government's requirement that insurance carriers make-available terrorism insurance is <u>necessary to ensure a healthy market</u> for commercial real estate loans.

Costs of Managing Terrorism Insurance Coverage

Extension of TRIA and the make-available provision also has an administrative impact on commercial/multifamily mortgage servicers. A full 94 percent of responding commercial/multifamily servicers expect expenses to rise if the make-available provision is not extended. Fifty-nine percent of servicers expect a significant increase in expenses – in terms of additional staffing, costs of litigation, etc. An additional 35 percent expect a moderate increase in expenses and 6 percent indicated no change in expenses. As costs associated with managing commercial mortgage portfolios increase, the yield, or return, on those portfolios would drop. Such changes would clearly have implications for market value and liquidity.

The Study

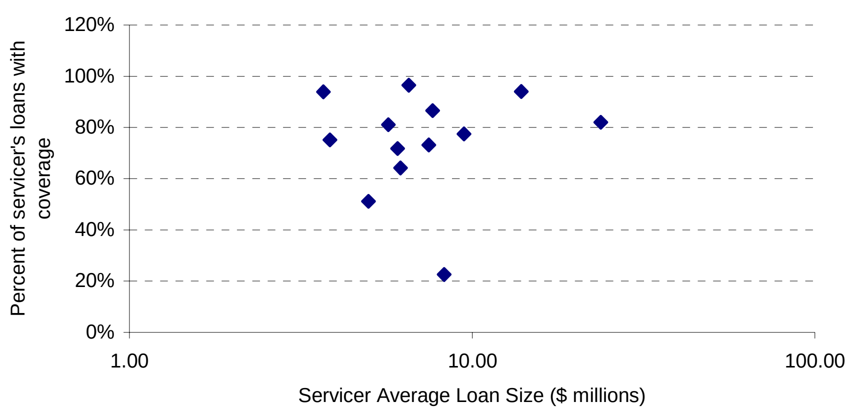
The MBA Study of Terrorism Insurance, TRIA and Make-Available collected information on more than $656 billion in outstanding commercial and multifamily loans – or 32 percent of the total commercial/multifamily mortgage market. The study includes representation across most major investor classes, including CMBS, life companies, Fannie Mae, Freddie Mac, FHA and others. Two major investor groups were only minimally represented – commercial banks and savings and loans. The study includes information from all 10 of the top 10 servicers, as well as 14 of the top 20 and 18 of the top 50 commercial/multifamily mortgage servicers.

Not all servicers were able to provide loan balance information. The dollar figures presented here represent the $656 billion for which loan balance information was available. The attitudinal responses are for all 18 responding servicers.

The study included aggregate reporting by large commercial/multifamily loan servicers on their portfolios as of the most recent reporting period available – generally either March or April 2004.

The study covered 122,811 commercial/multifamily loans. The average loan size covered by the study is $5.34 million. As evidenced in Figure 3, while there is a wide range in the average loan size and percentage of the servicing portfolio covered by terrorism insurance by servicer, there does not appear to be any relationship between the average loan size of a servicer and the percentage of that servicer's portfolio with terrorism insurance coverage.

Figure 3. Relationship Between Servicer's Average Loan Size and the Percentage of Loans with Terrorism Insurance Coverage
($ millions)



The Mortgage Bankers Association

The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 400,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership prospects through increased affordability; and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters excellence and technical know-how among real estate finance professionals through a wide range of educational programs and technical publications. Its membership of approximately 2,700 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

MBA SURVEY ON TERRORISM INSURANCE, TRIA AND MAKE AVAILABLE, MAY 2004

MORTGAGE BANKERS ASSOCIATION
Investing in communities

Please provide data on the servicing portfolio for which you are the PRIMARY servicer
Contact Jamie Woodwell of the MBA at 202-557-2936 with any questions.
eMail completed survey to jwoodwell@mortgagebankers.org or fax to 202-721-0245 BY MAY 19, 2004

Firm Name: ______________________

Name of Survey Contact: ______________________

Phone Number: ______________________

eMail Address: ______________________

If April data is not available

Data is "as of" (place an "X" in the appropriate box): April 30, 2004 [ ] March 31, 2004 [ ]

1. What is the size of the portfolio for which you are the PRIMARY servicer?	Number of loans	Loan Balance ($millions)
A. Total primary servicing volume	122,811	$ 656,337
B. Primary portfolio for which terrorism insurance is required	114,171	$ 616,206
C. Primary portfolio with terrorism insurance in place	99,106	$ 548,060

D. If the "make available" provision of TRIA is not extended, what ***percent*** of your portfolio would you expect to have terrorism insurance in place next year at this time. 20%

2. Please provide the following information on the REQUIREMENTS FOR TERRORISM INSURANCE that are imposed either by your own company or by the lenders for whom you service.

Portfolio	**Require Terrorism Insurance (Y/N)**	Current **Unpaid Principal Balance** of loans requiring terrorism insurance ($millions)	Current **Unpaid Principal Balance** of loans NOT requiring terrorism insurance ($millions)	Comments/Description of Requirements (Feel free to add additional comments in the box for Question 13)	Percent Requiring
CMBS		$ 394,973.02	$ 110.31		100.0%
Life Companies & Other Private Institutional Investors		$ 79,566.12	$ 9,769.24		89.1%
Fannie Mae/Freddie Mac		$ 37,037.65	$ 17,103.43		68.4%
FHA & Ginnie Mae		$ 7,160.19	$ 9,466.75		43.1%
Commercial Banks and Savings Inst.		$ 367.80	$ 940.00		28.1%
Warehouse & Other Affiliate Cos		$ 18,670.59	$ -		100.0%
Others		$ 77,866.81	$ 1,407.00		98.2%

3. When a borrower does not have adequate coverage, what share of the time would you expect to use each of the following alternatives? (Place an "X" in ONE box for each alternative)

A. Force Place coverage

Always/Almost Always	5	28%
Often	2	11%
Seldom	8	44%
Never/Almost Never	3	17%

B. Litigation to require borrower to purchase coverage

Always/Almost Always	0	0%
Often	0	0%
Seldom	6	33%
Never/Almost Never	12	67%

C. Declare an event of default

Always/Almost Always	1	6%
Often	1	6%
Seldom	10	56%
Never/Almost Never	6	33%

D. Notify borrower of requirement & work with him/her to purchase

Always/Almost Always	15	83%
Often	2	11%
Seldom	1	6%
Never/Almost Never	0	0%

E. Other: ______________________

Always/Almost Always	1	20%
Often	3	60%
Seldom	1	20%
Never/Almost Never	0	0%

4. If the Federal government's requirement that insurance carriers "make available" terrorism insurance is <u>not extended</u>, how successful would you expect each of the following to be in assuring coverage for inadequately covered properties? (Place an "X" in ONE box for each alternative)

A. Force Place coverage

Very successful	3	17%
Somewhat successful	10	56%
Not at all successful	5	28%

B. Litigation to require borrower to purchase coverage

Very successful	0	0%
Somewhat successful	10	56%
Not at all successful	8	44%

C. Declare an event of default

Very successful	0	0%
Somewhat successful	8	44%
Not at all successful	10	56%

D. Notify borrower of requirement & work with him/her to purchase

Very successful	3	17%
Somewhat successful	12	67%
Not at all successful	3	17%

E. Other ______________________

Very successful	1	25%
Somewhat successful	2	50%
Not at all successful	1	25%

5. Do you expect terrorism endorsements to be cancelled or excluded if the "make available" provision is not extended? (Place an "X" in the appropriate box)

Yes **18** No **0**

6. Has the Federal government's requirement that insurance carriers "make available" terrorism insurance helped increase the <u>availability</u> of terrorism insurance? (Place an "X" in the appropriate box)

Yes **18** No **0**

7. Has the Federal government's requirement that insurance carriers "make available" terrorism insurance helped bring the <u>price</u> of terrorism insurance within reach? (Place an "X" in the appropriate box)

Yes **18** No **0**

8. Is the <u>continuation</u> of the Federal government's requirement that insurance carriers "make available" terrorism insurance necessary to ensure the continued <u>availability</u> of terrorism insurance? (Place an "X" in the appropriate box)

Yes **18** No **0**

9. Is the <u>continuation</u> of the Federal government's requirement that insurance carriers "make available" terrorism insurance necessary to ensure terrorism insurance continues to be <u>priced within reach</u>? (Place an "X" in the appropriate box)

Yes **18** No **0**

10. Is the Federal government's requirement that insurance carriers "make available" terrorism insurance necessary to ensure a healthy market for commercial real estate loans? (Place an "X" in the appropriate box)

Yes **17** No **1**

11. Should the Federal government continue the TRIA "make available" requirement throughout 2005? (Place an "X" in the appropriate box)

Yes **18** No **0**

12. What would you expect to be the impact on your company's expenses -- in terms of additional staffing, costs of litigation , etc -- if "make available" is not extended? (Place an "X" in the appropriate box)

Significant increase in expenses	**10**	59%
Moderate increase in expenses	**6**	35%
No change in expenses	**1**	6%
Moderate decrease in expenses	**0**	0%
Significant decrease in expenses	**0**	0%